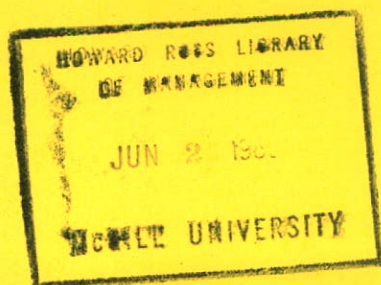


CONSOLIDATED CANADIAN FARADAY LIMITED



1979 ANNUAL REPORT



CONSOLIDATED CANADIAN FARADAY LIMITED

Directors:

W. Clarke Campbell,
Member of the firm of Day, Wilson, Campbell
Barristers and Solicitors

Martin P. Connell,
Chairman of the Board
Conwest Exploration Company Limited

John C. Lamacraft,
President and Chief Executive Officer
Conwest Exploration Company Limited

Jules Loeb,
General Manager, Falcon Investments Limited

Howard A. Masson,
Mining Executive

C. Kelly O'Connor,
Vice-President Exploration and Development
Conwest Exploration Company Limited

Robert D. H. Thorburn,
President, Venus Custom Products Limited

Officers:

W. Clarke Campbell, Chairman of the Board

John C. Lamacraft, President and Chief Executive Officer

C. Kelly O'Connor, Executive Vice-President

William M. O'Shaughnessy, Secretary-Treasurer

**Registrar and
Transfer Agent:**

Guaranty Trust Company of Canada
Toronto

Co-Transfer Agent:

Bank of Montreal Trust Company
New York, N.Y.

Auditors:

Thorne Riddell
Toronto, Ontario

Head Office:

10th Floor, 85 Richmond Street West, Toronto, Ontario

TO THE SHAREHOLDERS

Your directors are pleased to present the Annual Report for the year ended December 31, 1979. Included are the consolidated financial statements of the Company, the auditors' report and the financial statements of Madawaska Mines Limited for the fiscal period ending on that date. Also enclosed are notice of annual and general meeting, information circular, proxy statement and form of proxy.

Financial

Net earnings for the fiscal year ended December 31, 1979 totalled \$2,378,993 or \$0.67 per share as compared to \$2,871,144 or \$0.81 per share for 1978. The principal factor in the earnings decline was the decrease in the company's share of earnings of Madawaska Mines Limited from \$2,986,038 in 1978 to \$2,543,802 in fiscal 1979. The decrease can be attributed to timing differences in deliveries under sales contracts. Working capital increased during the year to \$2,639,350 from \$2,204,312 at year end 1978.

Mineral Operations

Cash flow from operations after capital reinvestment of 49%-owned Madawaska Mines Limited, decreased marginally to \$7,051,687 in 1979 from \$7,544,896 in 1978. The bulk of Madawaska's cash flow was used to retire that company's production financing.

Tonnage milled during the year was 390,366 tons at an average mill-head grade of 1.64 lbs. per ton. Total production was 605,533 pounds of U_3O_8 in concentrates for an overall recovery of approximately 95%. The average price, net of discount, received from foreign and domestic sales during the year was \$43.57 per pound U_3O_8 .

The base price, subject to commercial discount for deliveries to Agip, Madawaska's principal customer, in 1980 and 1981 has been determined to be \$50.50 and \$45.35 per pound U_3O_8 respectively. These base prices are adjusted quarterly based on

certain market indices. The adjusted net prices, subject to commercial discount, for deliveries in the first and second quarters of 1980, have been determined and are \$47.87 and \$41.11 per pound U_3O_8 respectively.

Natural Gas Interests

Your Company holds an 11.017% interest in 18 sections of producing acreage in the Redcliffe area of Alberta. Faraday's share of income from the 56 producing shallow gas wells was \$144,822 in 1979, as compared to \$135,997 in 1978. Additional wells are currently planned to maintain production rates.

Exploration

Your Company holds 25% of the Conwest Group's interest in several base metal and uranium exploration programmes. In the Yukon joint venture with Essex Minerals Company, over 8,000 feet of diamond drilling was carried out in 1979. Encouraging zinc-lead-silver values were obtained. Considerable exploration expenditures will be required to evaluate fully the significance of results to date. In early 1980, the Conwest group agreed to sell its interest to Getty Canadian Metals, Limited. Your Company has recovered its exploration costs to date and retains its 25% share in a 5% net smelter return royalty on the 51% interest assigned to Getty.

Eldorado Nuclear Limited continued exploration of the Saskatchewan claim blocks and Quebec permits on behalf of the Conwest Canadian Uranium Exploration Joint Venture. Your Company holds a 25% interest in the Conwest Group's 12.5% operating interest and 3% gross production royalty interest in the Joint Venture lands, which include some 250,000 acres on the edge of the Athabasca Basin and a further 150,000 acres in Quebec. On the former, a total of 34,000 feet of diamond drilling was carried out in 1979 to follow-up extensive geophysical surveys. One new uranium occurrence was located associated with graphitic basement

rocks; however, it did not respond favourably to closely spaced drilling. In Quebec, detailed prospecting located the probable source of a small but high grade uranium boulder train and diamond drilling to test this and other targets commenced in March 1980. Denison Mines Limited continued exploration of lands farmed out from the Conwest Uranium Joint Venture during 1979, and limited additional work is planned for 1980. Saskatchewan Mining Development Corporation is a one-third participant in all of the Joint Venture's lands in Saskatchewan.

Your Company has disposed of its major shareholding in Massval Mines Limited while maintaining its controlling interest in Hydra Explorations Limited. The latter Company holds interests in two gold properties, one near Timmins leased to Pamour Porcupine Mines Limited subject to a production royalty and the other, held through 50% owned Johnsby Mines Limited, in the Indin Lake Area located north of Yellowknife, N.W.T. Royalties received from Pamour during 1979 were not significant. Both properties are currently inactive. The Johnsby property, although low grade, has large tonnage open pit potential and is presently being reassessed in light of currently higher gold prices.

Other Interests

At Fort Myers, Florida, your Company continues to operate a 51-suite Apartment Complex. Efforts are being directed to disposing of this investment as it is not within the Company's main business of resource development.

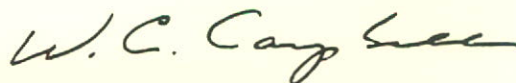
General

Your Company's main source of earnings for the past few years has been derived from its 49% equity in Madawaska Mines Limited. Recently a plan of reorganization has been approved in principle whereby your Company would convert its 49% equity in the capital of Madawaska Mines Limited

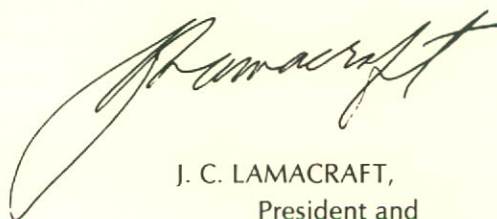
to a 49% joint venture interest in the mining and milling operation. Your Company would thus secure a 49% direct interest in the operating cash flow of the mine. Implementation of this reorganization will facilitate corporate planning by permitting free and independent allocation of the cash flow generated by the Bancroft operation. To this end, your Company is examining various investment opportunities in the resource development area and, in particular, oil and gas exploration.

The uranium industry as a whole is moving through a period of softening prices and increasing costs of production. Nuclear programmes are being deferred or decelerated and some utilities, in the current atmosphere of high interest rates, are drawing upon inventories previously accumulated at lower cost. Until the current trends alter course and future cash flows can be more accurately projected, implementation of a dividend policy must of necessity be deferred.

On behalf of the Board



W. CLARKE CAMPBELL,
Chairman



J. C. LAMACRAFT,
President and
Chief Executive Officer

April 30, 1980
Toronto, Ontario

MANAGEMENT DISCUSSION AND ANALYSIS

Earnings for the fiscal year ended December 31, 1979 decreased 17.1% to \$2,378,993 as compared to \$2,871,144 for the previous fiscal year.

Total revenue declined 4.3% in 1979 as compared to 1978.

Percentage of revenue for lines of business for each of the past two years are as follows:

	1979	1978
Mineral Operations	78%	88%
Oil and Gas Interests	5%	4%
Real Estate and Investment Income	17%	8%

Equity in earnings of the 49% owned Madawaska Mines Limited, which represents approximately 78% of the total revenue, decreased 14.8% from \$2,986,038 in 1978 to \$2,543,802 for 1979. Production at Madawaska Mines was 605,533 pounds of U_3O_8 for 1979 as compared to 546,998 for the previous year. During the year some 60,115 pounds was deferred to inventory at cost. The sale of this poundage to a domestic utility occurred in 1980.

Rental, natural gas and interest income increased 72% to \$705,475 as compared to \$410,089 for the previous fiscal year. The increase reflects the rising interest rates on short-term deposits and the institution of a higher rental rate schedule at the apartment complex during the year. A modest increase in revenue from natural gas properties is attributable to eight new wells brought on stream prior to year end.

Operating expenses for the 1979 fiscal year increased by 17.3% as compared to the 1978 figure reflecting the inflationary trend.

Mineral exploration for the fiscal year ended December 31, 1979 increased to \$412,283 as compared to \$102,797 for the previous fiscal year. Primarily, this increase is attributable to the company's expenditure of \$244,411 in a joint exploration project in the Yukon Territory. This whole amount was recovered in 1980 as a result of a sale of the company's interest in the project.

Total revenue for the fiscal year ended December 31, 1978 increased 18% to \$3,396,127 as compared to \$2,878,471 for the previous fiscal year. Improvement in production at the Madawaska Mines contributed to this increase. Total expenses were somewhat lower in 1978; \$529,246 in 1978 compared to \$593,482 in 1977 resulting from a decrease in mineral exploration of 44.2%. Write-down of certain investments in 1977 contributed to the lesser earnings for that year as compared to 1978.

PRICE RANGE OF COMMON SHARES

	1979	1978
First Quarter	\$3.40-2.70	\$3.05-2.45
Second Quarter	3.65-2.90	3.85-2.66
Third Quarter	4.25-3.40	3.80-3.15
Fourth Quarter	4.00-2.90	3.25-2.40

FORM 10-K ANNUAL REPORT

Copies of the corporation's Form 10-K Annual Report for 1979 to the United States Security and Exchange Commission will be available to shareholders upon written request to the Secretary of the Corporation.

SUMMARY OF OPERATIONS

	1979	1978	1977	1976	1975
Equity in earnings of Madawaska Mines Limited and other companies subject to significant influence	\$ 2,543,802	\$ 2,986,038	\$ 2,528,998	\$ 335,339	\$ 26,388
Other Income	705,575	410,089	349,473	497,778	870,140
	<u>3,249,377</u>	<u>3,396,127</u>	<u>2,878,471</u>	<u>833,117</u>	<u>896,528</u>
Operating expenses (net)	500,409	426,449	409,158	665,420	1,559,208
Exploration and development	412,283	102,797	184,324	180,543	305,000
	<u>912,692</u>	<u>529,246</u>	<u>593,482</u>	<u>845,963</u>	<u>1,864,208</u>
Income (loss) before undernoted	<u>2,336,685</u>	<u>2,866,881</u>	<u>2,284,989</u>	<u>(12,846)</u>	<u>(967,680)</u>
Gain (loss) on investments	44,570	4,263	(173,949)	169,122	(157,919)
Gain on sale of shares of subsidiary	—	—	116,801	—	80,584
Income taxes of subsidiary	(2,262)	—	2,852	(512)	(3,500)
	<u>42,308</u>	<u>4,263</u>	<u>(54,296)</u>	<u>168,610</u>	<u>(80,835)</u>
Net Income (loss)	<u>\$ 2,378,993</u>	<u>\$ 2,871,144</u>	<u>\$ 2,230,693</u>	<u>\$ 155,764</u>	<u>\$(1,048,515)</u>
Earnings (loss) per share	67¢	81¢	63¢	4¢	(29)¢

The above figures have been restated to reflect change in accounting policy (See Note 1(b) — Consolidated Financial Statements)

CONSOLIDATED CANADIAN FARADAY LIMITED*(Incorporated under the laws of Ontario)***CONSOLIDATED BALANCE SHEET****AS AT DECEMBER 31, 1979 AND 1978****ASSETS**

CURRENT ASSETS	1979	1978
Cash and short term deposits	\$ 2,663,111	\$ 2,238,860
Accounts receivable	119,465	32,170
Prepaid expenses	6,428	9,844
	<u>2,789,004</u>	<u>2,280,874</u>
INVESTMENTS (note 2)	6,227,941	4,313,166
REVENUE PRODUCING PROPERTY (note 3)	500,960	513,237
OIL AND GAS INTERESTS (note 4)	125,532	104,107
MINERAL EXPLORATION INTERESTS	1	1
OTHER	61,640	24,865
	<u>\$ 9,705,078</u>	<u>\$ 7,236,250</u>

LIABILITIES

CURRENT LIABILITIES	1979	1978
Accounts payable and accrued liabilities	\$ 136,252	\$ 64,142
Current portion of long-term debt	13,402	12,420
	<u>149,654</u>	<u>76,562</u>
LONG-TERM DEBT		
10% Mortgage, payable U.S. \$3,999 monthly including principal and interest, maturing November 1, 1986	<u>348,593</u>	<u>358,850</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized — 5,000,000 shares of no par value		
Issued (note 5) — 3,568,800 shares (1978, 3,558,800)	6,692,997	6,665,997
CONTRIBUTED SURPLUS	<u>1,506,061</u>	<u>1,506,061</u>
	8,199,058	8,172,058
RETAINED EARNINGS (DEFICIT)	<u>1,007,773</u>	<u>(1,371,220)</u>
	9,206,831	6,800,838
	<u>\$ 9,705,078</u>	<u>\$ 7,236,250</u>

Commitment (note 7)

Approved by the Board

W. C. CAMPBELL, Director

J. C. LAMACRAFT, Director

CONSOLIDATED CANADIAN FARADAY LIMITED

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1979 AND 1978

	1979	1978
Equity in earnings of companies subject to significant influence (note 6)	\$ 2,543,802	\$ 2,986,038
Rental and other income	560,753	274,092
Income from petroleum and natural gas properties	144,822	135,997
	<u>3,249,377</u>	<u>3,396,127</u>
Operating expenses (including interest of \$44,058; 1978, \$43,942)	463,554	390,117
Depreciation, depletion and amortization	43,213	28,904
Mineral exploration	412,283	102,797
	<u>919,050</u>	<u>521,818</u>
Income before undernoted	2,330,327	2,874,309
Gain on investments	44,570	4,263
Gain (loss) on disposal of mining interests	6,358	(7,428)
Income taxes of subsidiary	(2,262)	
NET INCOME	<u>\$ 2,378,993</u>	<u>\$ 2,871,144</u>
EARNINGS PER SHARE	<u>67¢</u>	<u>81¢</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

YEARS ENDED DECEMBER 31, 1979 AND 1978

	1979	1978
DEFICIT AT BEGINNING OF YEAR		
As previously reported	\$ 981,820	\$ 3,849,964
Adjustment arising from change in method of accounting for mineral exploration interests (note 1(b))	389,400	392,400
As restated	1,371,220	4,242,364
Net income	2,378,993	2,871,144
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ 1,007,773</u>	<u>\$ (1,371,220)</u>

CONSOLIDATED CANADIAN FARADAY LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**
YEARS ENDED DECEMBER 31, 1979 AND 1978

	1979	1978
WORKING CAPITAL DERIVED FROM		
Reduction of advances to companies subject to significant influence, net . .	\$ 415,594	\$ 600,635
Sale of investments	277,920	
Issue of shares	27,000	
Sale of mining interests		3,000
Reduction in other assets	2,000	2,000
	<u>722,514</u>	<u>605,635</u>
WORKING CAPITAL APPLIED TO		
Operations	166,166	92,027
Purchase of investments	19,917	703
Additions to revenue producing property	9,711	4,712
Reduction of long-term debt	10,257	10,954
Purchase of annuity	50,000	
Oil and gas interests	31,425	41,729
	<u>287,476</u>	<u>150,125</u>
INCREASE IN WORKING CAPITAL	435,038	455,510
WORKING CAPITAL AT BEGINNING OF YEAR	2,204,312	1,748,802
WORKING CAPITAL AT END OF YEAR	<u>\$ 2,639,350</u>	<u>\$ 2,204,312</u>

AUDITORS' REPORT

To the Shareholders of Consolidated Canadian Faraday Limited

We have examined the consolidated balance sheet of Consolidated Canadian Faraday Limited as at December 31, 1979 and 1978 and the consolidated statements of income, retained earnings (deficit) and changes in financial position for the years then ended. For Consolidated Canadian Faraday Limited and subsidiaries of which we are the auditors our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other subsidiaries and companies subject to significant influence we have relied upon the reports of other auditors who have examined their financial statements.

In our report dated March 31, 1979 our opinion on the 1978 financial statements was qualified as being subject to the effects, if any, on those statements of the possibility that Madawaska Mines Limited, a company subject to significant influence, may not have sufficient economically recoverable ore reserves to recover the cost of its deferred charges and deferred mine development costs. Subsequent to the date of that report, it has been determined that Madawaska does have sufficient ore reserves to recover such costs. Accordingly our opinion on the 1978 financial statements presented herein has been updated to eliminate the reference to the aforementioned qualification.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change, with which we concur, in the method of accounting for mineral exploration interests as described in note 1(b), on a consistent basis.

Toronto, Canada
April 10, 1980

THORNE RIDDELL & CO.
Chartered Accountants

CONSOLIDATED CANADIAN FARADAY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979 AND 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Long-term Inter-corporate Investments

(i) Consolidated subsidiaries

The consolidated statements include the accounts of the Company and its wholly-owned subsidiaries, Bancroft Holdings Limited, Farida, Inc. and Faramines, Inc.

(ii) Companies subject to significant influence

Investments held at January 1, 1973 are carried on a basis of accounting which reflects changes in equity since that date. Investments acquired subsequently reflect changes in equity since acquisition. The Companies accounted for on the equity basis are as follows:

	Equity in common shares
Madawaska Mines Limited	49%
Dumbarton Mines Limited	50%
Hydra Explorations Limited	36%

(iii) Other

Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline in value which is other than temporary.

Because of the number of shares held in certain companies, the quoted market values are not necessarily indicative of the value of such investments, which may be more or less than indicated by market quotations. For the purpose of determining quoted market value for certain investments, escrowed shares are valued at 50% of the quoted market value of free shares.

(b) Mineral Exploration Interests

During the year the Company changed its method of accounting for mineral exploration interests whereby direct exploration expenditures and the cost of acquisition of mineral exploration interests are charged to income in the year incurred. Previously, certain property acquisition costs were deferred in the accounts until such time as the property was considered to be permanently uneconomic or abandoned.

As a result of this change, which has been applied retroactively, mineral exploration interests have been written down to nominal value and net income for 1978 has been increased by \$3,000. There is no effect on 1979 net income.

(c) Mineral Resource Interests

The cost of acquisition of mineral interests which contain economic mineral reserves and the cost incurred on mineral exploration interests subsequent to the determination that such interests contain economic mineral reserves are deemed to be mineral resource interests. These interests, together with development expenditures thereon, are deferred and carried as an asset to be amortized against future production. Upon disposal or abandonment, the net gain or loss related to such asset is reflected in the statement of income.

(d) Revenue Producing Property

The revenue producing property is recorded at cost. Depreciation is being provided on the straight-line basis over the estimated useful life of the assets.

(e) Foreign Currency Translation

Amounts in foreign currency have been translated into Canadian dollars on the following bases:

- (i) Current assets and current liabilities at the rate of exchange in effect as at the balance sheet date.
- (ii) Fixed assets, related depreciation and long-term debt at historical rates.
- (iii) Revenues and expenses at the average rate of exchange in effect during the year.

2. INVESTMENTS

	1979	1978
Companies subject to significant influence		
With quoted market value		
Hydra Explorations Limited (quoted market value \$889,401; 1978, \$619,665)	\$ 165,536	\$ 165,074
Without quoted market value		
Madawaska Mines Limited	5,892,086	3,764,339
Dumbarton Mines Limited	Nil	Nil
	<u>6,057,622</u>	<u>3,929,413</u>
Other		
With quoted market value (quoted market value \$289,490; 1978, \$132,814)	144,399	192,252
Without quoted market value and other investments	25,920	191,501
	<u>170,319</u>	<u>383,753</u>
	<u>\$ 6,227,941</u>	<u>\$ 4,313,166</u>

During 1979 the Company disposed of the majority of its holding of shares of Massval Mines Limited which company had formerly been subject to significant influence. As a result, the investment in Massval has been reclassified as other investments.

3. REVENUE PRODUCING PROPERTY

	1979		1978
	Cost	Accumulated depreciation	Net
Land	\$ 145,695		\$ 145,695
Buildings and equipment	651,707	\$ 296,442	355,265
	<u>\$ 797,402</u>	<u>\$ 296,442</u>	<u>\$ 500,960</u>
			<u>\$ 513,237</u>

4. OIL AND GAS INTERESTS

	1979	1978
Participation in drilling of wells on Faraday's approximately 11% interest in certain natural gas leases in the Redcliffe area of south-eastern Alberta ...	\$ 152,044	\$ 120,619
Less depletion	26,512	16,512
	<u>\$ 125,532</u>	<u>\$ 104,107</u>

5. STOCK OPTION PLAN

- (a) At December 31, 1979 there was an option outstanding on 40,000 shares of the Company at a price of \$2.70 per share. This option was granted in 1979 under the Company's stock option plan at a price equal to 85% of the market value of the shares at the date of the grant. The option expires January 30, 1984 and is exercisable on a cumulative basis as to 10,000 shares in any one year.
- (b) During 1979 an option on 10,000 shares at \$2.70 per share was exercised.

6. EQUITY IN EARNINGS OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

	1979	1978
Madawaska Mines Limited	\$ 2,551,747	\$ 2,954,219
Other companies	(7,945)	31,819
	<u>\$ 2,543,802</u>	<u>\$ 2,986,038</u>

7. COMMITMENT

Pursuant to an agreement dated January 1, 1979, the Company, Conwest Exploration Company Limited and International Mogul Mines Limited agreed to expend in total up to \$1,500,000 annually to December 31, 1981 on certain non-hydrocarbon exploration projects. The Company has agreed to contribute 25% of amounts expended on projects covered by this agreement.

8. COMPARATIVE FIGURES

The 1978 comparative figures have been restated to reflect the change in accounting practice referred to in note 1(b) and have been reclassified to conform with the financial statement presentation adopted for 1979.

9. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers (as defined by The Business Corporations Act) amounts to \$94,550 (\$94,199 in 1978).

MADAWASKA MINES LIMITED**STATEMENTS OF FINANCIAL POSITION****ASSETS**

	December 31	
	1979	1978
CURRENT ASSETS		
Cash	\$ 312,417	\$ 362,100
Accounts receivable	2,432,074	6,051,753
Inventories:		
Materials and supplies	1,024,865	1,085,723
Broken ore inventory	1,275,662	1,123,764
Concentrate in process	219,545	256,894
Finished concentrate	1,512,109	
	4,032,181	2,466,381
Prepaid expenses and other current assets	322,603	115,208
TOTAL CURRENT ASSETS	7,099,275	8,995,442
INVESTMENTS AND OTHER ASSETS		
Investments in oil and gas properties	792,602	
Deferred charges — Note B	2,685,367	3,103,512
	3,477,969	3,103,512
PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	950,681	844,911
Buildings	2,062,826	2,077,040
Equipment	5,085,062	4,672,918
Construction in progress	42,738	96,697
Mining claims and leases	2,508,641	2,507,309
	10,649,948	10,198,875
Less allowances for depreciation and depletion	2,928,970	1,911,066
	7,720,978	8,287,809
Deferred mine development costs — Note B	6,836,973	6,410,592
	14,557,951	14,698,401
	<u>\$ 25,135,195</u>	<u>\$ 26,797,355</u>

See notes to financial statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31	
	1979	1978
CURRENT LIABILITIES		
Bank advances		\$ 943,620
Trade accounts payable	\$ 376,243	638,066
Payable to Federal Resources Corporation	169,780	372,827
Payable to Consolidated Canadian Faraday Limited	173,716	182,825
Accrued expenses	551,001	340,465
Income taxes payable	368,169	
Mining taxes payable	1,400,000	1,500,000
Current portion of long-term debt — Note C	7,039	7,214,608
TOTAL CURRENT LIABILITIES	3,045,948	11,192,411
LONG-TERM DEBT, less current portion — Note C	187,542	196,331
DEFERRED INCOME TAXES — Note A	5,400,000	3,100,000

STOCKHOLDERS' EQUITY

Common stock, no par value:		
Authorized, issued and outstanding		
1,000 shares	3,000,000	3,000,000
Retained earnings	13,501,705	9,308,613
	16,501,705	12,308,613
	<u>\$ 25,135,195</u>	<u>\$ 26,797,355</u>

MADAWASKA MINES LIMITED

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

	Year Ended December 31 1979	1978
Revenues:		
Uranium concentrate sales (net of discount)	\$ 23,763,497	\$ 21,877,561
Other income	66,085	103,904
	<u>23,829,582</u>	<u>21,981,465</u>
Cost and expenses:		
Mining	9,421,185	8,318,844
Milling	3,513,782	3,069,335
General and administrative	1,503,287	1,422,314
Interest	1,148,236	1,134,893
Mining taxes	1,350,000	1,342,292
	<u>16,936,490</u>	<u>15,287,678</u>
INCOME BEFORE INCOME TAXES	6,893,092	6,693,787
Income taxes:		
Current	400,000	
Deferred	2,300,000	1,790,000
	<u>2,700,000</u>	<u>1,790,000</u>
NET INCOME	4,193,092	4,903,787
Retained earnings at beginning of year	9,308,613	4,404,826
RETAINED EARNINGS AT END OF YEAR	<u>\$ 13,501,705</u>	<u>\$ 9,308,613</u>

See notes to financial statements

AUDITORS' REPORT

Stockholders and Board of Directors, Madawaska Mines Limited, Bancroft, Ontario

We have examined the statements of financial position of Madawaska Mines Limited as of December 31, 1979 and 1978, and the related statements of earnings and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 17, 1979, our opinion on the 1979 financial statements was qualified as being subject to the existence of sufficient economically recoverable ore reserves to amortize the costs of deferred charges and deferred mine development costs. Subsequent to that report, the Company has determined that there are sufficient ore reserves available that can be sold at prices that will provide for full amortization of the deferred charges and deferred mine development costs. Accordingly, we have removed our qualification for each of the two years ended December 31, 1979.

In our opinion, the financial statements referred to above present fairly the financial position of Madawaska Mines Limited at December 31, 1979 and 1978, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Toronto, Ontario
February 22, 1980

ERNST & WHINNEY
Chartered Accountants

MADAWASKA MINES LIMITED

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31 1979	1978
SOURCE OF FUNDS		
From operations:		
Net income	\$ 4,193,092	\$ 4,903,787
Charges to income not requiring current outlay of working capital:		
Depreciation and depletion	1,035,017	933,019
Amortization of deferred mine development costs and other deferred charges	1,157,475	1,050,314
Deferred income taxes	2,300,000	1,790,000
TOTAL FROM OPERATIONS	8,685,584	8,677,120
Retirements of property, plant and equipment	90,746	389,350
	<u>8,776,330</u>	<u>9,066,470</u>
USE OF FUNDS		
Investments in oil and gas properties	792,602	
Purchase of property, plant and equipment	558,932	501,500
Payments and transfers to current portion of long-term debt	8,789	9,287,847
Increase in deferred mine development costs	1,165,711	1,020,074
	<u>2,526,034</u>	<u>10,809,421</u>
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 6,250,296	\$ (1,742,951)
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ (49,683)	\$ 61,500
Accounts receivable	(3,619,679)	1,789,455
Inventories	1,565,800	674,370
Prepaid expenses and other current assets	207,395	40,984
	<u>(1,896,167)</u>	<u>2,566,309</u>
Increase (decrease) in current liabilities:		
Note payable to bank		(2,150,000)
Bank advances	(943,620)	(57,836)
Trade accounts payable	(261,823)	(35,498)
Payable to Federal Resources Corporation	(203,047)	7,549
Payable to Consolidated Canadian Faraday Limited	(9,109)	182,825
Accrued expenses	210,536	(689,593)
Mining taxes payable	(100,000)	845,000
Current portion of long-term debt	(7,207,569)	6,206,813
Income taxes payable	368,169	
	<u>(8,146,463)</u>	<u>4,309,260</u>
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 6,250,296	\$ (1,742,951)

See notes to financial statements

MADAWASKA MINES LIMITED

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 1979 and 1978

NOTE A — SUMMARY OF ACCOUNTING POLICIES

Inventories: Broken ore, concentrate in process, and finished goods inventories are carried at cost (first-in, first-out method) and are not in excess of market values. Material and supplies inventories are valued using the average cost method.

Investments in Gas and Oil Properties: Gas and oil partnership investments are accounted for on a "successful efforts" basis and represent investments in specific gas and oil exploration programs in which the Company has a limited partnership interest.

Property, Plant and Equipment: Property, plant, and equipment are recorded at cost. Additions, renewals, and betterments that add materially to productive capacity or extend the life of an asset are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Plant and equipment are depreciated principally by the straight-line method. Estimated useful lives are:

Land improvements	10 years
Buildings	10 to 20 years
Equipment	5 to 10 years

Upon retirement, abandonment, or disposal of an asset, the asset and related allowance for depreciation amounts are eliminated. Any related gains and losses on such transactions are included in income.

Mining Claims and Leases: Costs incurred for the acquisition of mining claims and leases are capitalized. Depletion of mining claims and leases is based on quantities of ore fed to production per year in relation to total quantities of ore available. Total quantities of ore available is defined as all ore in stockpiles at year end, estimated remaining ore reserves at year end, and ore fed to production during the year. At the time properties are retired, abandoned, or otherwise disposed of, the amounts of costs and related accumulated depreciation or depletion are eliminated from the accounts, and resulting gains and losses are included in operations.

Deferred Mine Development Costs: Costs of developing a mining claim or lease, deepening the shafts, and creating stations and pockets are capitalized. The Company has also deferred all general and administrative costs prior to September 1976 when commercial operations commenced.

Deferred Income Taxes: Deferred income taxes arise principally from timing differences in expensing certain capital costs for tax purposes at rates in excess of amortization, depletion, and depreciation for financial statement purposes. Investment tax credit and earned depletion claims are recognized on the flow-through method. Investment tax credit and earned depletion claims of \$447,000 in 1978 was recognized as an offset to deferred income taxes.

Consolidated Subsidiary: The Company is a 51% owned consolidated subsidiary of Federal Resources Corporation, and is 49% owned by Consolidated Canadian Faraday Limited.

Pension Plan: It is the policy of the Company to fund actuarially determined pension costs as accrued. All employees of the Company are included in the plan and contribute a portion of the pension costs.

NOTE B — DEFERRED CHARGES AND DEFERRED MINE DEVELOPMENT COSTS

Costs to be recovered through future sales are as follows:

	1979	1978
Organization costs	\$ 64,922	\$ 64,922
Management fee	400,000	400,000
Agency fee	3,500,000	3,500,000
	3,964,922	3,964,922
Less accumulated amortization	1,279,555	861,410
	<u>\$ 2,685,367</u>	<u>\$ 3,103,512</u>

Under the terms of an Agency Agreement dated April 16, 1975, the Company agreed to pay \$3,500,000 to its shareholders in consideration of services performed by them in securing a contract for sale of uranium concentrates to an agency of the government of the Republic of Italy. In addition, the Company paid \$400,000 to its shareholders for management services.

Deferred mine development costs include:

	1979	1978
Expenses incurred in the years of 1967 to 1975 by Can-Fed Resources Corporation (a wholly-owned subsidiary of Federal Resources Corporation)	\$ 1,743,846	\$ 1,743,846
Expenses incurred by the Company since April 1975:	7,110,776	5,945,065
	8,854,622	7,688,911
Less accumulated amortization	2,017,649	1,278,319
	<u>\$ 6,836,973</u>	<u>\$ 6,410,592</u>

Company engineers and geologists indicate that economically recoverable ore reserves on the property are more than adequate to amortize the capital investments and deferred charges recorded on the Company's books.

NOTE C — LONG-TERM DEBT

	1979	1978
Note payable to bank, interest at prime rate plus 1½%, collateralized by all assets of Madawaska Mines Limited, except for certain trailers, payable annually in an amount equal to the greater of \$1,000,000 or 75% of the net cash flow		\$ 3,725,000
Debentures payable, interest at prime rate plus 2% (retroactive to August 1978), payable subject to the provision of the note payable to bank, payment based on net cash flow:		
Federal Resources Corporation		1,831,712
Consolidated Canadian Faraday Limited		424,000
		<u>2,255,712</u>
Debentures payable to Federal Resources Corporation, interest at prime rate plus 3½%, payment based on net cash flow		1,227,741
Mortgages payable to a bank, interest at 13½%, collateralized by trailers costing \$250,000 less current portion of \$7,039 in 1979 and \$6,155 in 1978	\$ 194,581	202,486
	194,581	7,410,939
Less current portion	7,039	7,214,608
	<u>\$ 187,542</u>	<u>\$ 196,331</u>

Under a loan agreement (relating to the note payable to bank) dated July 1, 1975, a Canadian bank granted a \$6.1 million term line of credit to finance the rehabilitation of the mill and the development work necessary to put the mine into operation. The loan agreement was signed by both the Company and Federal Resources Corporation.



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